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SUBJECT: POOR LEADERSHIP, SCARCE CAPITAL AND POWER TOP BABIL
BUSINESSMEN'S WOES; SECURITY A FACTOR TOO

REF: A) HILLAH 76 B) 06 HILLAH 150

HILLAH 00000084 001.2 OF 003

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REASON: 1.4 (b), (d)

1. (U) This is a PRT Babil cable.

2. (C) Summary: In recent meetings with the PRT, representatives of the Babil business and commercial sector highlighted the following as key to the province's near-term economic growth:

- Overcoming the ineffective and/or counterproductive role of government -- particularly that of the Provincial Council (PC)
- Reforming the banking sector to make loans easier and more affordable
- Increasing the availability and reliability of electricity and fuel
- Instituting quality/safety/health standards for agricultural, processed, and manufactured goods, especially imports
- Development of tourism
- Opportunities for training in modern business methods
- Greater U.S. role in either capacity building or public works

Although rarely mentioned directly, the security situation was never far beneath the surface. Several interlocutors privately expressed to econoff their interest in promoting trade across the Sunni-Shi'a sectarian divide. Discussion of future development was limited to the near term, with participants shying away from pondering longer-term (2-5 years) prospects. End Summary.

INEFFECTIVE POLITICAL LEADERSHIP

3. (C) In late May, PRT Babil held a series of meetings with provincial business and commercial contacts to discuss the economic outlook for Babil province. Interlocutors focused on current conditions and the near- to mid-term, avoiding looking more than two years into the future. The Babil branches of the Iraqi Chamber of Industry, Small Business Development Center (SBDC), Iraqi Investment Center, Iraqi Economic Development Center (IEDC), the Babil Chamber of Commerce, and the Iraqi-American Chamber of Commerce all voiced criticism of the Babil PC and castigated it for stifling business activity. In the eyes of the Babil business community, the PC lacks technocrats interested in fostering development. Specific complaints included the failure to approve a provincial

investment commission (as provided for in the national investment law) or to carry out reconstruction projects. A member of the IEDC alleged the provincial government drove wealthy Babil investors away to the neighboring provinces of Karbala, Najaf and Diwaniya due to its inability to provide a favorable investment climate.

¶4. (C) In exasperation, the head of the Babil chapter of the Iraqi Industries Organization incredulously asked how the GOI could fail when Iraq, with a population of 28 million, had a budget of USD 41 billion. He contrasted this Iraqi per capita ratio with what he purported were the figures for Egypt (population: 75 million, budget: USD 22 billion), Syria (16 million, USD 9 billion), and Jordan (8 million, USD 7 billion). So frustrated have Babil's business leaders become that they ask, "What's the use?" and have all but given up lobbying the government to shake off its lethargy.

ONEROUS LENDING PRACTICES RESULT IN CASH CRUNCH

¶5. (SBU) The central government also came under criticism for its failure to reform antiquated banking practices that result in lack of access to capital and high interest rates. Banks typically charge between 18 and 20 percent interest on loans and insist on a quick start to repayment. (Note: The central bank's interest rate on deposits is currently 20 percent as well. End note.) Several contacts expressed trepidation at even contemplating a loan for fear that a default will lead to imprisonment (ref A). Another feature of these loans is the requirement of a security guarantee equivalent to, if not greater than, the amount of the loan itself. One contact noted in a similar vein that businessmen seeking letters of credit from Iraqi banks are required to pay transaction fees equal to 30-40 percent of the letter's value.

A VICIOUS CYCLE OF ELECTRICITY AND ENERGY SHORTAGES

HILLAH 00000084 002.2 OF 003

¶6. (C) Hand in hand with the need for money, businessmen bewailed the scarcity of electricity and the sporadic and unpredictable interruptions of current. The power shortage has caused most factories in Babil to close their doors, they maintained, and simply providing generators would not overcome the energy crunch. The growing demand for private and neighborhood generators has created a fuel shortfall and driven up black market prices, in turn raising factory production costs. Dr. Asmaa al-Hashimi of the SBDC asserted that 24-hour-a-day electricity from the national grid, even if sold at market rates, would be cheaper than the exorbitant cost of generators and fuel.

INDUSTRIAL, AGRICULTURAL SECTORS STAGNANT

¶7. (SBU) In addition to insufficient electricity, a combination of outmoded equipment and lack of government assistance continues to plague Babil's industrial and agribusiness sectors, according to contacts. The province's estimated 80 private textile mills, many of them now shuttered for lack of electricity and new machinery, are both a source of pride and a symbol of the stagnation plaguing the province's manufacturing sector. Industrial leaders described similar scenarios playing out at cement and brick factories in the region. Likewise, agriculture suffers from economic dislocation and agribusiness remains underdeveloped. IEDC reported that production of sesame fell from 20,000 tons in 2003-04 to an estimated 500-700 tons last year, a decline they attributed to a lack of fertilizer and the high cost of fuel. (Note: Moreover, most of Babil's agricultural production is not processed or refined further to enhance its value and thereby maximize the province's economic

gain. End note.)

INFLUX OF CHINESE AND IRANIAN IMPORTS

¶8. (C) A lack of a quality control regime has contributed to a flood of low-cost, low-quality goods in the Babil market. Interlocutors report significant problems with certificates of origin on products ostensibly made in the U.S. or Japan but in reality originating in China. The lack of consumer protection notwithstanding, the members of the Babil Chamber of Commerce delighted in discussing with the PRT their forthcoming trip to Guangzhou seeking further opportunities to import Chinese goods. Iran, likewise, continues to make inroads into the Iraqi market (ref B), particularly through its promotion of sister-cities programs with southern Iraqi cities as well as close links to provincial political leaders. Other contacts, while expressing concern over the influx of Chinese and Iranian imports, argued that the trend was not surprising given the increasing difficulty in obtaining visas to travel to the West or even Jordan or the Gulf Arab states.

TOURISM DEVELOPMENT PLANS NEED A PUSH

¶9. (C) The existence of the Babylonian ruins in their backyard never escapes the sights of local businessmen, several of whom announced or reiterated to the PRT their plans to develop the immediate environs as a major tourist attraction. They invariably cite the lack of a suitable hotel as one constraint, pointing out that the Regional Embassy Office (REO) occupies the hotel nearest the ruins. Yet for all the enthusiastic talk, Babylon-centered plans do not appear to have gone beyond the development stage in the absence of a green light from the provincial or national government. Moreover, secular or non-fundamentalist business leaders allege that efforts to promote tourism focused on antiquities run counter to the aims of the ISCI-led provincial government and the reputedly Sadrist-dominated Chamber of Commerce, which supposedly consider religious tourism, based on the millions of Shi'a pilgrims annually transiting Babil en route to Karbala and Najaf, the only "legitimate" form thereof. (Note: PRT Babil is considering ideas for helping support rehabilitation of the Babylon archeological site. In addition, all five PRTs at REO Al-Hillah are cooperating on fostering closer regional cooperation in the creation of a tourist corridor that would offer enhanced services and entice pilgrims to visit other attractions. End note.)

MORE PROGRAMS IN IRAQ, TRAVEL ABROAD NEEDED

HILLAH 00000084 003.2 OF 003

¶10. (C) Representatives from the Iraqi-American Chamber, IEDC and SBDC emphasized the need to provide more training programs. SBDC specifically cited its efforts starting with a fundamental "How to Start a Business" course and plans for more specialized training in micro-finance. All contacts expressed concern over the limited opportunities for Iraqis to establish trading contacts and exchange ideas abroad. They complained of the increasing difficulty of obtaining the necessary visas to travel on business -- including to the Middle East -- and several noted that numerous participants to the recent "Rebuild Iraq" conference in Amman were denied entry into Jordan.

U.S. ROLE: CAPACITY BUILDING, OR PUBLIC WORKS?

¶11. (C) Babil business leaders overwhelmingly called for continued -- if not greater -- U.S. engagement in the economic realm and expected the U.S. to remain a major presence on the

ground in Iraq for the foreseeable future. Yet while all sought U.S. help, the understanding of the possibilities and limits of such assistance varied from group to group, with some emphasizing capacity building (e.g., SBDC touting its training programs via the USAID-sponsored Izdihar) while others sought public works projects. Representatives of the Babil Chamber of Commerce and the Chamber of Industry, for instance, made vague or general requests for the U.S. to create something "for which citizens of Babil will remember them," such as universities and libraries modeled after ones in Cairo, Beirut and Amman.

SECURITY

¶12. (C) While rarely mentioned during the recent meetings, security remains just below the surface in any discussion of development for Babil province and no doubt causes potential major investors to think twice before pouring their money into an uncertain environment. (Note: There have been some positive developments, however, such as the opening of a yogurt factory employing 200 people in North Babil and a date-processing plant in Abu Gharag - news of which no one in these meetings was aware. End note.) All interlocutors agreed that instability contributes significantly both to the high cost of domestic products and to a breakdown of trade within Iraq, particularly the non-Shi'a provinces. Indeed, not one Sunni from North Babil attended any of the meetings. A member of the Iraqi-American Chamber of Commerce even asked for the USG's assistance in setting up a conference in Hillah featuring Sunni, Shi'a, and Kurdish participants from throughout the country.

COMMENT

¶13. (C) Babil's economic situation, while not dire, is clearly sluggish and in need of serious reform. The inability of the GOI at both the national and provincial levels to foster a favorable investment climate will continue to stifle Iraqi and outside investors who otherwise might take risks to establish or expand businesses, develop the province's agricultural and tourist base, and increase citizens' purchasing power. At the moment the high rate of return -- both monetary and political -- on Iranian and Chinese imports redounds to the detriment of U.S. and local interests. Yet while Babil's business community correctly identified lack of adequate access to capital and many other institutional impediments to economic growth, they must also think outside of the box if the province is to move beyond its economic doldrums. Perhaps the most significant example of the need for a different development paradigm is the continuing emphasis on reviving the textile industry, the past success of which was based on massive subsidies that effectively provided free raw materials.

¶14. (C) Comment, continued: Under the circumstances, the most significant steps that local business organizations can take are: 1) pursue cooperative ties with other business organizations throughout the region, 2) seek avenues for engagement with all levels of the GOI in a common effort to foster economic growth, and 3) expand training for small and medium-size businesses of the type offered by the SBDC. PRT Babil will continue to engage the business community in these capacity-building efforts locally and regionally, one example of the latter strategy being the prospective tourism corridor. End comment.

HUNTER